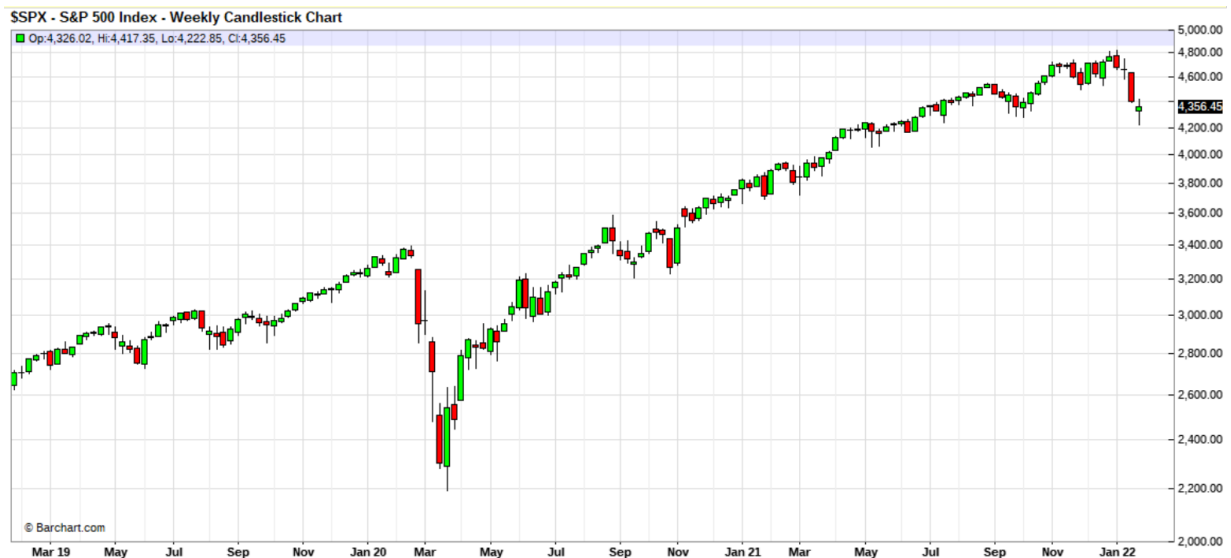


What is going on in the market, and what actions I took...

The market had a decent sell-off over the past couple of days, is it done? I don't know, and I don't think anyone does. The primary concerns seem to be interest rates going up and Ukraine. These were discussed in the last January 2022 Mark(et) Rush Report. So, it is following the script as far as that is concerned.

Let's look at the current facts.

The Charts



The first chart looks at the 6-month time horizon, which looks like capitulation and a decent time to buy but.... The second chart looks at the 3-year time horizon, and it frankly is gruesome. A trend that has been in place for nearly two years has been broken. Honestly, the second chart scares me since there is a lot of room to go down. There is no long-term support until around 3500 or down another 20%. I don't think it will get that bad, but another 10% is possible. At that is the level I would become aggressive.

The Technicals

The technicals say -8% on the S&P 500 index, which is only a modest overall sell signal. When I dug into the analysis, it has the short-term indicators as a hold, midterm as a buy, but long term a sell.

Very Mixed at best.

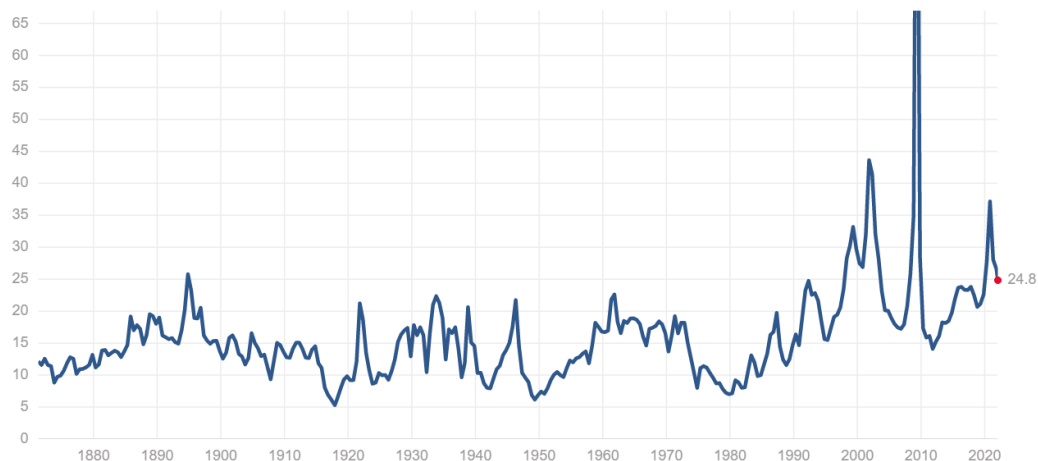
Seasonality

We see from the seasonality chart that this event was either the “end of January” sell-off, or we have several more bad days ahead of us. If it follows the chart, we will chop around until sometime in mid-March; I would be comfortable investing after the March Federal Reserve meeting.



Valuation

We have S&P 500 earnings at 210 for 2021, 225 for 2022, and 250 for 2023 with a current price (1/25/22) of 4,356.45. This gives us a 21 earnings yield of 4.8%, 5.2% for this year, and a forward (2023) earning yield of 5.7%. This is an improvement but not compelling. Again, another 10% down would get me very interested in the market.



The market is still rich

Thoughts

Valuation has improved but is still high. The short-term chart is a compelling buy but the long-term chart is a compelling sell. The seasonality chart says wait until at least mid-February and better for mid-March. I don't see anything compelling in either direction. I would rate the current price action as hold or selected nibble. If we go back up, I would probably sell; if we went down another 10%, I probably go "all in."

What I've done

I was roughly 50% going into this sell-off. Over the past two days, I have put about 1/3 of my cash into the market, so I'm now roughly 35% cash. I'm looking at March or another down 10% to put more cash to work.

BABA: Bought an Iron condor; these are bets that the price moves, the direction is irrelevant

VXX: Shorted the VIX via time spread, a bullish play

SOXL: Leveraged Semiconductor play

BKNG: Long Butterfly, end of virus play

NAIL: Long Leveraged Homebuilders, compelling valuations

AA: Alcoa long term recovery plays; it shrugged off the sell-off

IP: Long term recovery play, 3.8% qualified dividend, behaved well during sell-off

DVN: Long play in energy space, 4% qualified dividend, should go up on Ukraine news

ARQQ: Long, Quantum computers play